CASH TRANSFER GRANT AGREEMENT
("AGREEMENT")

BETWEEN

THE UNITED STATES OF AMERICA, ACTING THROUGH
THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT ("USAID")

AND

THE PALESTINIAN AUTHORITY, ACTING THROUGH
THE MINISTRY OF FINANCE ("PALESTINIAN AUTHORITY")

Dated March 19, 2008

ARTICLE I. The Grant

The purpose of this grant is to provide budget support to the Palestinian Authority. USAID hereby grants to the Palestinian Authority under the terms of this Agreement not to exceed One Hundred Fifty Million United States Dollars ($150,000,000) (the "Grant").

ARTICLE II. Use of Grant Proceeds

(a) Except as USAID and the Palestinian Authority (the "Parties") may otherwise agree in writing, USAID shall transfer the New Israeli Shekel ("NIS") equivalent of the Grant (the "Local Currency Proceeds") to a separate sub-account of the Palestinian Authority's single treasury account (the "Separate Account").

(b) Except as the Parties may otherwise agree in writing, Local Currency Proceeds shall be used by the Palestinian Authority to (i) service debt owed to commercial vendors or financial institutions or (ii) to finance specific purchases from commercial vendors, in both cases, as may be further agreed to by the Parties in accordance with the terms of this Agreement and any subsequent Implementation Letters issued under Section 6.3 of this Agreement.

ARTICLE III. Disbursement

Upon satisfaction of the conditions precedent set forth in Section 4.1, USAID will disburse the NIS equivalent of the Grant amount (based on the then prevailing exchange rate) to the Palestinian Authority for deposit in the Separate Account described further in Section 5.1 of this Agreement.

ARTICLE IV. Conditions Precedent to Disbursement

SECTION 4.1. Conditions Precedent to Disbursement

Prior to the disbursement of Grant proceeds, or to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Palestinian Authority shall, except as the Parties may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID, the following:

(a) A statement of the names of the persons holding the offices specified in Section 6.6, and of any additional representatives, together with a specimen signature of each person so designated;

(b) Evidence that the Palestinian Authority has established a Separate Account described in Article V of this Agreement, including (i) the name and address of the bank, (ii) the name and number of the account including bank routing number, (iii) the names and titles of officials authorized to make withdrawals, (iv) a statement of the means by which funds will be withdrawn from the account, and (v) a statement that the Palestinian Authority will maintain the bank account in the manner required by Section 5.1 of this Agreement.

(c) A written statement from the bank confirming that the account has been established and that the bank has received instructions from the Palestinian Authority authorizing USAID access to all information essential to monitoring the terms of this Agreement along with a copy of the Palestinian Authority's written instructions to the bank.

(d) A written statement that the Palestinian Authority will take all possible measures to ensure that none of the Local Currency Proceeds will be (i) furnished to, (ii) used to finance, reimburse or service debts related to, or (iii) used for any ineligible individual or organization or any ineligible use listed in Section 6.7 below or as may be outlined in a subsequent Implementation Letter issued under Section 6.3 of this Agreement.

SECTION 4.2. Terminal Date for Disbursement

USAID will promptly notify the Palestinian Authority when the Conditions Precedent specified in Section 4.1 have been met. If the Conditions Precedent specified for the initial disbursement of Grant proceeds have not been met within one hundred twenty (120) days from the date of this Agreement, or such other date as the Parties may agree to in writing, USAID may terminate this Agreement by written notice to the Palestinian Authority.

ARTICLE V. General Terms and Conditions Governing the Use of the Cash Transfer.

SECTION 5.1. Establishing the Separate Account.

(a) The Palestinian Authority agrees to establish a separate sub-account of its Single Treasury Account at the Arab Bank, PLC; Al-Masyoun Branch (the "Separate Account") for deposit of the Local Currency Proceeds, and shall not commingle the Local Currency Proceeds with funds from any other source. Except as USAID otherwise agrees in writing, the Palestinian Authority agrees to use the Local Currency Proceeds exclusively for the purposes set forth in Article II.

(b) The Palestinian Authority agrees that any interest earned on funds in the Separate Account must be returned to the United States. USAID will issue an Implementation Letter to provide instructions on effecting payment to the United States of any interest earned.

SECTION 5.2 Withdrawals from the Separate Account. The Palestinian Authority will withdraw these funds only in accordance with the procedures to be mutually agreed upon by the Parties through an exchange of Implementation Letters.

SECTION 5.3 Accounting Books and Records

The Palestinian Authority shall maintain, or cause to be maintained, in accordance with generally accepted international accounting principles and practices, documents in support of deposits to and withdrawals from the Separate Account. Such documents shall be available for review and audit by USAID, or its designees, such times as USAID may request and for up to three years following the last withdrawal from the Separate Account made in accordance with the provisions of this Agreement.

SECTION 5.4 Reporting

Except as the Parties may otherwise agree in writing, the Palestinian Authority shall provide USAID with biweekly reports on the uses of Separate Account funds and the status of the Separate Account until the funds are fully withdrawn and applied for the agreed-to purposes specified in Article II. Each report will include all deposits into and withdrawals from the account as well as a report on the use of the amounts and the end recipients of the amounts. Each report will include copies of the corresponding bank statement pertaining to the

period covered by the report. Additional reporting requirements and formats may be established in Implementation Letters.

ARTICLE VI. Miscellaneous

SECTION 6.1 Taxation

This Agreement and the Grant shall be free from any taxation or fees imposed under laws in effect in the territory of the Palestinian Authority.

SECTION 6.2 Refund of Grant

In the case of any disbursement or expenditure of any of the Local Currency Proceeds which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement or any Implementation Letter, USAID may require the Palestinian Authority to refund the amount of such disbursement in U.S. Dollars to USAID, or as USAID may otherwise direct in writing, within sixty (60) days after receipt of a request therefor. In addition, USAID may otherwise request the return of any amount of Local Currency Proceeds that remains available for expenditure, and the Palestinian Authority shall return any such amount with sixty days of receipt of the request. The Palestinian Authority shall bear any exchange rate losses associated with refunding any amount requested under this section to ensure that the United States is refunded an amount in U.S. dollars equivalent to the amount it deposited into the Separate Account at the relevant exchange rate in effect on the date of the transfer as specified further in an Implementation Letter. The right to require a refund will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

SECTION 6.3 Implementation Letters

USAID may from time to time issue Implementation Letters elaborating on terms of this Agreement, further describing applicable procedures, or recording agreement of the Parties on details of implementation. Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions and exceptions which are permitted by the Agreement.

SECTION 6.4 Non Waiver of Remedies

No delay in exercising any right or remedy accruing to a Party in connections with this Agreement will be construed as a waiver of such right or remedy.

SECTION 6.5 Consultation

The Parties will cooperate to ensure that the purposes of this Agreement are accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Agreement, and other matters related to the Agreement.

SECTION 6.6 Representatives

(a) For all purposes relevant to this Agreement, the Palestinian Authority will be represented by the individual holding or acting in the office of the Minster of Finance, and USAID will be represented by the individual holding or acting in the capacity of the Director, USAID/West Bank and Gaza, each of whom, by written notice, may designate additional representatives for all purposes other than signing formal amendments to the Agreement.

(b) The names of the representatives of the Palestinian Authority, with specimen signatures, will be provided to USAID. Either Party may accept as authorized any instrument signed by such representatives of the other party in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 6.7 Prohibited Uses; Replenishment of Proceeds

Both the Palestinian Authority and USAID are firmly committed to the international fight against terrorism, and in particular, against the financing of terrorism. It is the policy of USAID and the Palestinian Authority to seek to ensure that none of its funds are used, directly or indirectly, to provide support to individuals or entities associated with terrorism. In accordance with this policy, the Palestinian Authority undertakes to take all possible measures to ensure that none of the Local Currency Proceeds are used to provide support to any individual or organization that advocates, plans, sponsors, engages in, or has engaged in or is associated with terrorism, armed hostilities or other acts of violence, or any entity effectively controlled by such individual or organization.

In addition, Local Currency Proceeds may not be used to finance, reimburse or service debts related to the purchase of services, commodities or

equipment for the use or benefit of any military, paramilitary, police, prison or law enforcement purpose. In addition, Local Currency Proceeds may not be used to finance the purchase of surveillance equipment, abortion equipment, luxury goods and gambling equipment, or weather modification equipment; nor may Local Currency Proceeds be used for (a) any activity that involves investment promotion, unless specifically authorized by USAID, or which would contribute to a violation of internationally recognized rights of workers, or (b) for purposes other than those authorized pursuant to Article II. Furthermore, the Local Currency Proceeds may not be used for any purpose prohibited under the heading "Other Bilateral Economic Assistance – Economic Support Funds" of United States public law 110-161, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008, Division J (December 26, 2007) with respect to funds appropriated under such heading for cash transfer assistance to the Palestinian Authority. The Palestinian Authority agrees to refund to USAID a U.S. Dollar amount equal to the amount of any Local Currency Proceeds used for purposes prohibited under this Section in accordance with instructions provided by USAID in a subsequent Implementation Letter.

SECTION 6.8 Communications

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be communicated by certified mail or by fax followed by certified mail in case of urgency, and will be deemed duly given or sent when delivered to such party at the following addresses, as applicable:

To the Palestinian Authority:
Ministry of Finance
Palestinian Authority
Attention: Minister of Finance
Ramallah, West Bank
Tel.: 972-2-297-8846
Fax: 972-2-297-8845

To USAID:
USAID c/o American Embassy
Attention: Mission Director
71 HaYarkon Street
Tel Aviv, Israel
Tel.: 972-3-511-4848
Fax: 972-3-511-4888

All such communications will be in English, unless the parties otherwise agree in writing. Other addressees may be substituted for the above upon giving of written notice.

SECTION 6.9 Amendment

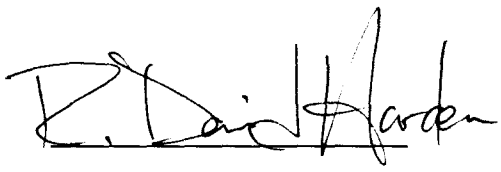
This agreement may be amended by the execution of written amendments by the authorized representatives of both the Parties designated in Section 6.6 above.

SECTION 6.10 Effective Date

This Agreement shall enter into force on the date first above written, following signature by both the Parties.

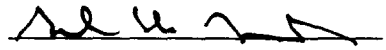
IN WITNESS WHEREOF, the Palestinian Authority and the Government of the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

The United States of America

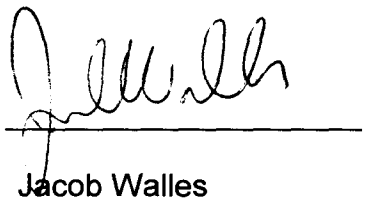
By: 

Name: R. David Harden
Title: Acting Director, USAID
West Bank and Gaza

The Palestinian Authority

By: 

Name: Dr. Salam Fayyad
Title: Prime Minister and
Minister of Finance

By: 

Name: Jacob Walles
Title: Consul General

USAID Fiscal Data:
Appropriation: 728/91037-37
BFY Fund: ES 2008/2009
Program Area: A13
Program Element: A059
ODN: 294-CT-00-08-00001-00